

Business leagues; telephone-answering service for tow truck operators. A nonprofit organization whose principal activity is providing a telephone answering service to distribute calls for towing service on a rotational basis to its members who are tow truck owners and operators does not qualify for exemption under section 501(c)(6) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization was formed to maintain and advance high standards of ethical and professional conduct and business practices among tow truck owners and operators in a particular county, and to establish and maintain a system whereby calls for towing services from law enforcement agencies may be equitably divided among members of the organization. The principal activity of the organization is to provide an answering service to receive calls for towing service. The organization contracts with an independent answering service that receives calls for towing services from local law enforcement agencies. The answering service refers these calls to the organization's members on a rotational basis. Individual members of the organization pay a monthly fee to the answering service.

Business entities actively engaged in towing services in the county are eligible for membership in the organization provided they meet specified standards and pay an initial membership fee and monthly dues.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having a common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

The primary effect of the activity described above is to provide the organization's members with an economy and convenience in the conduct of their individual businesses. Thus, by this activity the organization is performing particular services for its members as distinguished from the improvement of business conditions in the towing industry. Accordingly, the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.